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January 16, 1991

Through Rudolf Notenberg, Chief Administrative Officer

Honorable Art Agnos  
Mayor  
City Hall, Room 205  
San Francisco, CA 94102

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Honorable Board of Supervisors  
City Hall, Room 235  
San Francisco, CA 94102

UNIVERSITY OF CALIFORNIA

Dear Mayor Agnos and Members of the Board of Supervisors:

In accordance with the requirements of Charter Section 3.202, this letter is to forward a report of the Risk Management office on workers' compensation.

Previous reports on workers' compensation issues have been statistical portrayals of departmental and City-wide claims activity. But numbers sometimes don't make the real issues clear. The attached report assesses where we are after thirty years of largely superficial attention to an issue that has become very expensive, not only in dollars, but in lost services and human suffering.

Compared to State-wide averages for California local governments, San Francisco's 25,000 employees file 7,000 claims a year (more than double the average rate), stay off the job twice as long per disability, lose over 150,000 work days annually to job-related injuries and illnesses, cost \$24 million annually in benefit payments, with the future, unfunded cost of claims already on the books estimated at \$106 million.

Since job-related injuries and illnesses are a direct reflection of departmental operations, departments must play a crucial role in managing this issue, yet, inexplicably, departments are not accountable for doing so nor, for that matter, is anyone else given the clear authority to deal with the problem. To establish accountability and begin the extensive process of turning this situation around, a two-phase program is suggested.

Phase one places accountability on departmental management and would involve such things as: (1) departments regularly reporting to policymakers on prescribed workers' compensation issues, (2) applying cost allocations consistently to all General Fund budgets and (3) including management of health and safety issues in the performance evaluations of managers.

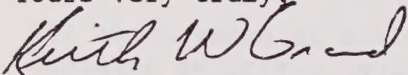


Honorable Art Agnos, Mayor  
Honorable Board of Supervisors  
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Phase two involves claims administration and cost control and could include: (1) creating a central unit of health and safety technicians to support departments' primary role, (2) providing a central source of automated claims data to create useful management information, (3) providing reasonable budgetary support for departments demonstrating progress, (4) positive incentives for preventing job-related claims, (5) formal training for all management levels in workers' compensation issues, (6) aggressive management of post-claim cost containment techniques and (7) evaluation of the merits of consolidating prevention and benefit administration.

Recently enacted State-mandated benefit increases and stricter requirements for injury prevention programs guarantee that our situation will worsen rapidly, in terms of cost and non-compliance, unless we resolutely attack the underlying causes and commit to the long-range process necessary to overcome decades of neglect.

Yours very truly,



Keith W. Grand, CPCU  
Risk Manager

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The first part of the document is a letter from the President of the United States to the Congress. The letter is dated October 10, 1910, and is addressed to the House of Representatives. The President discusses the state of the Union and the progress of the government. He mentions the recent election and the new Congress. He also discusses the state of the economy and the progress of the war. The letter is a formal and official document.

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Very truly yours,  
Woodrow Wilson  
President of the United States

## WORKERS' COMPENSATION REPORT

### BACKGROUND

For the last thirty years, a great deal of attention has been focused on workers' compensation issues in San Francisco. Safety committees have conducted countless meetings on departmental, interdepartmental and joint labor/management levels. Safety and health provisions have been negotiated in labor/management agreements. The Finance Committee of the Board of Supervisors has held hearings. Departments have been assigned goals by the Mayor to reduce the numbers and cost of claims. Automated claims data has been provided to major departments on a monthly basis for years. A cost allocation system has been developed to charge department budgets their share of City-wide costs. Financial auditors have raised alarms about rising costs appearing as huge unfunded liabilities on the City's balance sheet. Many reports have been provided to policy makers and managers on the status of these issues.

Yet the problem is much worse today.

All those years of activity haven't been translated into effective action to minimize injuries, control costs and effectively manage exposures.

### HOW BAD IS IT?

Local statistics and State legislation create this profile:

- San Francisco's 25,000 employees file 7,000 claims annually, a rate about 115% higher than the State-wide average for local government employees
- San Francisco's employees average 34 days away from work for each disabling claim, a rate 100% higher than the State-wide average for local government employees. Annually, City employees lose over 150,000 work days to job-related disabilities.
- San Francisco's annual paid cost of claims has increased 106% over the last six years, to \$24 million, and the estimated future unfunded cost of claims already on the books is \$106 million.
- State-legislated benefit increases, effective 1-1-90, automatically drive up costs of claims occurring after that date and will again after 1-1-91 and 1-1-92 step increases take effect.
- A significant, new (October, 1989) State law now requires every employer to implement an effective, written injury prevention program, in accordance with specific evaluation criteria being developed by Cal-OSHA, to be applied 7-1-91. We are years away from realistic compliance.



## WORKERS' COMPENSATION REPORT

As the statistics show, we are doing a poor job of preventing injuries and controlling costs. The City is self-insured for workers' compensation benefits, with claims administered in-house by a division of the Retirement System. Once a claim is determined to be compensable (work-related), legal mandates dictate the amounts and timing of payments, with penalties for non-compliance. The rising volume of claims has pushed adjuster case loads to almost double the recommended industry standards. The Retirement System's efforts to automate data processing have necessarily focused on claims administration, not management information, so that very limited data reporting capabilities exist for operating departments. What limited management reporting capability exists has further been curtailed by concerns over legal liability for unauthorized disclosure of confidential aspects of some claims (AIDS, psychiatric, substance abuse, etc.).

The Retirement System is the department centrally involved with workers' compensation benefits. Its legally-mandated role is confined to the post-claim administration of benefits, the amount and timing of which are legally mandated. Both better efforts at claims prevention and post-claim cost control are required.

### SAVINGS ARE IN PREVENTION AND COST CONTROL

Major savings will occur only when injuries are prevented and post-claim cost controls are aggressively implemented. If San Francisco could reduce the frequency and severity of its claims to only the State-wide averages for local government, referred to above, which aren't particularly good, it would save about \$15 million annually.

While actions to prevent claims will reduce their frequency and severity, the ultimate cost of a claim (severity) is also affected by post-claim actions. Many factors must be evaluated and managed, including whether the injury is properly diagnosed, is the nature, scope and frequency of medical treatment appropriate, are treatment charges proper, has anyone contacted the injured employee to express concern and encouragement, is accommodation made for early return to work, whether an employee receives more pay while injured than while working, etc. These factors require close, harmonious working relationships among the claims adjuster, treating physician, injured employee and affected department. If any one of these parties is hostile or indifferent, lost time and ultimate cost increase. Realistically, we can never prevent every injury. Thus, a second major focus must be upon how effective is integration and management of post-claim cost control measures.

Fortunately, the catalysts to begin an effective prevention program are readily available at no cost. Experts agree that most job injuries are caused by unsafe acts, unsafe conditions or a combination of both. Throughout the City's organization structure are managers, supervisors and employees with thousands of years of combined experience in the minute details of every job, knowledge of how to perform safely, of the correct equipment to use, plus an equally large knowledge of unsafe procedures and equipment. We have a central data bank of tens of thousands of cases where something went wrong, should we want to learn from past mistakes.

In addition, we already have in place the departmental authority structure to regulate performance and the work environment in every City jobsite, to focus this knowledge and experience into effective prevention. Clearly, this is not happening.



## WORKERS' COMPENSATION REPORT

### PREVENTION NOT A MANAGEMENT PRIORITY

Department managers and supervisors who have the workplace authority and experience to implement effective prevention programs are not sufficiently accountable for doing so. They are already besieged with an enormous variety of difficult and often competing tasks to perform, sometimes with limited staff and constrained budgets. On the whole, departments do a remarkable job of performing those tasks which are most important in the minds of managers, policymakers and the public. If injury prevention and workers' compensation post-injury cost controls were regarded as equally significant, our record of achievement would speak for itself. The record speaks otherwise.

There is nothing new or mysterious about people being injured or made ill in the work environment. We don't need special equipment or elaborate data systems to initially find out what is happening. Every injury or illness requires a State-mandated, detailed report be completed by the immediate supervisor, who should investigate every such instance in order to complete the report properly. In fact, thousands of such reports are made every year. Collectively, we know exactly what is causing at least 90% of these claims.

Unfortunately, it's at this point that we begin to lose control of the prevention process. This wealth of real time information typically does not lead to effective action. The management process never begins to address this multi-million dollar cost of departmental operations. For decades, this cost was not recognized as a departmental responsibility. General Fund department managers have never had to budget for, control or even know the cost of claims generated by their departments. The Retirement System budgets centrally for all City departments and the Controller's Office is the only other department involved, generating warrants to pay claims expenses as directed by Retirement. Although automated claims data has become available to operating departments in recent years, in form and content it is minimally useful, being generated by a data system used principally for administering benefits, not for creating management information.

While management data is limited, the greater problem is that management has no effective incentive to use even what it gets. A cost allocation system, developed to create a financial incentive by charging General Fund\* departments their equitable share of workers' compensation costs, has been applied selectively during the budget process, avoiding charges to the worst offenders and, thus, leaving the impression that cost allocation is a bureaucratic gimmick which managers can ignore.

\*Enterprise/Special Fund departments are already charged their costs of workers' compensation benefits.



## WORKERS' COMPENSATION REPORT

It is, in our opinion, likely that the average department head or middle manager has no inkling of

- how many claims the department has at any one time during the year
- how many department employees are absent with disability claims at any one time
- how long individual employees remain off work for workers' compensation
- how much department claims cost
- whether the injury rate is better or worse than last year

Despite the above criticism of "management," this is no indictment of individual managers, per se. They have demonstrated competence and ingenuity in solving many problems more difficult than workers' compensation. The point is, they have never been seriously asked to solve this problem.

Understandably, they concentrate their energies on other issues that are perceived as significant. Unfortunately, this will be a new burden added to the load they already bear, but they are the priceless, untapped resource absolutely essential to reversing our downward slide.

Fortunately, we can make some relatively inexpensive, internal adjustments to begin turning this situation around, but the new process will be long and difficult. The following section recommends actions to do this.

### ACCOUNTABILITY AND SUPPORT

The root cause of the present situation is lack of accountability at every level of the management hierarchy. The root cure is to create accountability at every level of the management hierarchy. A possible scenario might look as follows:

#### Phase 1 - Establish Accountability

- The Board of Supervisors, Mayor, Commissions and Chief Administrative Officer should begin to ask department managers to personally present regular status reports on department workers' compensation matters, including such standard yardsticks as frequency and severity rates compared to prior departmental rates.
- The cost allocation system should be applied consistently to all department budgets it was designed to affect
- The performance evaluations of individual managers should include review of their management of health and safety matters within their authority. Agreed threshold levels of number of employees or workers' compensation claims would designate which managers are so evaluated.



## WORKERS' COMPENSATION REPORT

In addition to department managers being required to take the lead, policymakers must evidence their commitment by establishing a realistic support system. Elements might include:

### Phase 2 - Support System

- A central, technical cadre of occupational safety and health experts formed to assist departments that currently have none. Note that these experts do not assume departments' primary responsibility.
- A central, automated source of relevant management reports should be implemented to aid department managers and provide status reports to policymakers.
- Reasonable budgetary support should be available for requests from departments which have demonstrated progress in managing health and safety issues.
- A system of positive incentives to encourage departments and employees to prevent job-related injuries and illnesses.
- Formal training for all management levels in workers' compensation issues.

Currently, workers' compensation benefit administration (post-injury) is centralized in the Retirement System. However, there is no centralized role in prevention (pre-injury) at present, such as the occupational safety and health technicians mentioned above. Should that central resource be created to support prevention efforts, the City should evaluate the merits of consolidating these pre-injury and post-injury functions under one administration, to foster coordination of effort and facilitate the flow of relevant information to departments and policymakers.

### A BEGINNING

It will take years of sustained management commitment to develop an effective program that properly manages the myriad complex issues inherent in workers' compensation. However, until we address the underlying causes of the problem, we are guaranteeing the problem will worsen.

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